Setsoto Local Municipality
(Registration number Municipal demarcation code FS191)
Financial statements
for the year ended 30 June 2019
Auditor-General of South Africa

General Information

Legal form of entity	A Municipality which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A Local Authority providing municipal services and maintaining the best interest of the community in the Setsoto Municipal area.
Legislation governing the municipality's operations	Local Govenment: Municipal Finance Management Act (No. 56 of 2003)
	Local Govenment: Municipal Systems Act (No. 32 of 2000)
	Local Govenment: Municipal Systems Amendment Act (No. 44 of 2003)
	Local Government: Municipal Structures Act (No. 117 of 1998)
	Local Government: Municipal Structures Amendment Act (No.33 of 2000)
	Housing Act (No. 107 of 1997)
	Constitution of the Republic of South Africa (No. 108 of 1996)
	Property Rates Act (No. 6 of 2004)
	Annual Division of Revenue Act
	Municipal Demarcation Act (No. 27 of 1998)
	Local Government: Transition Act Second Amendment (No. 97 of 1996)
	Water Services Act (No. 108 of 1997)
	Electricity Act (No. 41 of 1987)
	Intergovernmental Fiscal Relations Act (No. 97 of 1997)
	Intergovernmental Relations Framework Act (No. 13 of 2005)
Mayor / Executive Mayor	Maoke, Nthateng Alice
Executive Committee / Mayoral Committee	Koalane, Komane Elias
	Taylor, Nnini Annie
	Hlakane, Moeketsi
	Selasi, Motsamai William
	Khitsane, Nthatisi Petronella
Councillors	Speaker - Mokhuoane, Krog Sexton
	Koqo, Palesa Elizabeth
	Mokhele, Modise Moses
	Mathuhle, Motsamai John
	Schee, Pulane Constance
	Lipoko, Ratsholwane Shadrack
	Makhubu, Ntahli Selina
	Mohosho, Andronika Modiehi
	Strydom, Evert Phillip
	Matsau, Malefane Patrick
	Makhalanyane, Tieho George
	Moipatli, Chere Daniel
	Mothibeli, Moselantja Mercy
	Selikane, Thabiso Shadrack
	Mthimkulu, Mamotena Lydia
	Ralehlatsi, Mahlomola Klaas
	Makobane, Serame Ishmael
	Khatlake, Ntema Peter
	Jakobo, Tsheliso Bernard

General Information

	Mthimkhulu, Thabo Isaac Vries, Isak Semahla, Mookho Hilda Matobako, Puseletso Constance Sellane, Matieho Theresia Mokoena, Teboho Jacob Maveleliso, Paka Isaac Bester, Aletta Catharina - Resigned 31/01/2019 Heymans, Maria Cornelia - From 04/02/2019
Grading of local authority	06 - Meduim Capacity
Accounting Officer	Mr. STR Ramakarane
Acting Chief Finance Officer (CFO)	Mr. N van Tonder
Registered office	27 Voortrekker Street Ficksburg 9730
Business address	27 Voortrekker Street Ficksburg 9730
Postal address	P O Box 116 Ficksburg 9730
Bankers	First National Bank, a division of First Rand Limited
Auditors	Auditor-General of South Africa
Legal Manager	PM Koalane P O Box 116, Ficksburg, 9730 matshediso@setsoto.co.za
Telephone Number	(051) 933 9300
Fax Number	(051) 933 9363

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Index

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
COGTA	Department of Cooperative Governance and Traditional Affairs
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
mSCOA	Municipal Standard Chart Of Accounts
IGRAP	Interpretation of the Standard of Generally Recognised Accounting Practice

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared as required by in terms of Section 122 of the Municipal Finance Management Act (No. 56 of 2003) and in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Setsoto Local Municipality has neither the intention nor the need to liquidate or curtail materially its scale.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently performing audit and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The financial statements set out on pages 7 to 88, which have been prepared on the going concern basis (Please refer to Note 53), were approved by the accounting officer on 31 August 2019

Mr. STR Ramakarane
Municipal Manager

Audit & Performance Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2019.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year a number of 8 meetings were held.

Name of member	Number of meetings attended
Mr H B Mathibela - Chairperson	7
Mr T Zororo	3
Mr L S Mofokeng	5
Mrs F Kobo	5
Mrs S Masite	4

All members are independent with no interest in the management or conduct of the business of the Municipality and the members of the Audit and Performance Audit Committee were appointed on the 26 June 2017 and their contract will end on 27 July 2022.

Audit and Performance Committee responsibility

The Audit and Performance Audit Committee reports complies with its responsibilitites arising from section 166(2)(a) and (b) of the MFMA.

The Audit and Performance Audit Committee has adopted appropriate formal terms of reference as its Audit and Performance Committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilitites as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is considered generally adequate in design and is partially ineffective in its implementation on some entities and this was evident by the reasonable assurance given by the Internal Audit Unit. However, there have been some vast improvements on some internal controls. The identification of corrective actions and suggested enhancements to the controls were done through risk management process and interaction with management on the action plan on audited report.

Evaluation of financial statements

The Audit and Performance Audit Committee has:

- reviewed and discussed the unaudited financial statements that will be presented to the Auditor-General South Africa;
- reviewed changes in accounting policies and practices;
- reviewed the adjustments made which appear on notes of prior year period error and re-classification;
- reviewed SCM Policy and assets management policy;
- provide assurance on irregular, fruitless and wastefull expenditure;
- provide assurance on the write off on debtors;
- monitors asset management;
- monitor the implementation of the procurement plan;
- monitor the implementation of the SCM policy on deviation;

Internal audit

The Audit and Performance Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Chairperson of the Audit & Performance Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 644 326 365 (2018: deficit R 47 366 882).

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 2 603 503 177 and that the municipality's total assets exceed its liabilitites by R 2 603 503 177.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that would impact on the financial results as disclosed in these financial statements.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

The financial statements prepared as required in terms of Section 122 of the Municipal Finance Management Act (No. 56 of 2003) and in accordance with the South African Standards of Generally Recognized Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed framework by National Treasury.

6. Employee benefits

Management performed an actuarial valuation of the Employee Benefits of the employer's liability as arising from the Post-Retirement Healthcare Subsidy ("RHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and have determined the items required for disclosure in terms of this standard.

Refer to note 20 for detail about these valuations.

7. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year.

8. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr. STR Ramakarane	RSA

9. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

Accounting Officer's Report

10. Jurisdiction

Setsoto Local Municipality includes the following areas:

- Ficksburg
- Senekal
- Marquard
- Clocolan

Setsoto Local Municipality

(Registration number Municipal demarcation code FS191)
Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018
Assets			
Current Assets			
Inventories	3	5 575 372	2 860 937
Receivables from exchange transactions	5&6	204 766 737	181 268 256
Receivables from non-exchange transactions	7	51 054 431	60 252 230
Cash and cash equivalents	9	29 385 855	377 515
		290 782 395	**244 758 938**
Non-Current Assets			
Investment property	10	67 037 792	68 198 668
Property, plant and equipment	11	2 483 731 590	3 145 203 126 *
Intangible assets	12	515 610	1 574 564
Heritage assets	13	15 385 902	15 385 903
Other financial assets	4	3 723 058	3 479 855
		2 570 393 952	**3 233 842 116**
Total Assets		**2 861 176 347**	**3 478 601 054**
Liabilities			
Current Liabilities			
Other financial liabilities	14	7 637 045	7 923 026
Payables from exchange transactions	16	139 731 062	109 176 999 *
VAT payable	21	3 629 936	8 021 325
Consumer deposits	17	3 219 260	2 787 766
Employee benefit obligation	20	1 348 055	576 000 *
Unspent conditional grants and receipts	18	8 979 260	8 979 260
Provisions	19	1 264 969	1 217 000
		165 809 587	**138 681 376**
Non-Current Liabilities			
Other financial liabilities	14	20 772 460	27 317 132 *
Employee benefit obligation	20	44 741 798	44 756 000 *
Provisions	19	26 349 325	20 017 000
		91 863 583	**92 090 132**
Total Liabilities		**257 673 170**	**230 771 508**
Net Assets		**2 603 503 177**	**3 247 829 546**
Accumulated surplus	56	2 603 503 177	3 247 829 543

* - Amount has been restated, for details refer to Note 58.

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018
Revenue			
Revenue from exchange transactions			
Service charges	22	178 270 347	167 135 018
Rental of facilities and equipment	24	1 497 060	1 191 601
Interest received (trading)	28	33 531 202	24 176 660
Licences and permits		22 720	189 626
Commissions received		265 097	241 353
Sale of land	28	1 631 658	109 511
Other income	23	3 878 137	19 714 297
Interest received - investment	25	3 582 050	2 396 348
Dividends received	25	59 666	51 142
Total revenue from exchange transactions		**222 737 937**	**215 205 556**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	66 372 198	52 960 740
Transfer revenue			
Government grants & subsidies	27	295 147 986	246 803 008
Public contributions and donations	50	-	4 091 554
Fines, Penalties and Forfeits	28	1 635 725	1 688 828
Total revenue from non-exchange transactions		**363 155 909**	**305 544 130**
Total revenue	28	**585 893 846**	**520 749 686**
Expenditure			
Employee related costs	29	187 091 940	175 808 088
Remuneration of councillors	30	13 350 038	12 747 829
Repairs and maintenance		3 545 327	1 518 870
Depreciation and amortisation	32	226 647 232	176 925 653
Impairment loss/ Reversal of impairments	33	1 268 460	1 584 887
Finance costs	34	13 188 824	6 997 866 *
Lease rentals on operating lease		3 006 212	6 449 012
Debt Impairment	35	104 984 116	78 138 083
Collection costs		1 506 702	1 125 593
Bulk purchases	36	70 308 820	53 990 492
Contracted services	37	12 894 664	13 380 027
Transfers and Subsidies	38	241 014	2 110 976
Loss on disposal of assets and liabilities		548 613 472	911 500
Actuarial losses		3 278 597	424 000
General Expenses	40	40 294 793	36 003 692 *
Total expenditure		**1 230 220 211**	**568 116 568**
Deficit for the year		**(644 326 365)**	**(47 366 882)**

* - Amount has been restated, for details refer to Note 58.

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**3 295 196 425**	**3 295 196 425**
Changes in net assets		
Deficit for the year	(47 366 882)	(47 366 882)*
Total changes	(47 366 882)	(47 366 882)
Balance at 01 July 2018	**3 247 829 542**	**3 247 829 542 ***
Changes in net assets		
Deficit for the year	(644 326 365)	(644 326 365)
Total changes	(644 326 365)	(644 326 365)
Balance at 30 June 2019	**2 603 503 177**	**2 603 503 177**
Note(s)		

* - Amount has been restated, for details refer to Note 58.

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018
Cash flows from operating activities			
Receipts			
Property Rates		75 582 061	52 102 476
Sale of goods and services		85 454 963	77 247 872
Grants		295 147 986	246 803 007
Interest income		3 582 050	2 396 348
Dividends received		59 666	51 142
Other receipts		5 513 862	21 403 125
Other non-cash item		100	42 768
		465 340 688	400 046 738
Payments			
Employee costs		(200 441 978)	(188 555 917)
Suppliers		(104 058 349)	(127 552 411)
Finance costs		(13 188 824)	(6 997 866)*
		(317 689 151)	(323 106 194)
Net cash flows from operating activities	41	**147 651 537**	**76 940 544 ***
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(111 569 341)	(99 117 641)
Proceeds from sale of property, plant and equipment	11	-	642 660
Purchase of financial assets		(243 203)	(267 994)
Net cash flows from investing activities		**(111 812 544)**	**(98 742 975)**
Cash flows from financing activities			
Take up/(Repayment) of other financial liabilities		(6 830 653)	20 099 044 *
Net cash flows from financing activities		**(6 830 653)**	**20 099 044**
Net increase/(decrease) in cash and cash equivalents		**29 008 340**	**(1 703 387)**
Cash and cash equivalents at the beginning of the year		377 515	2 080 903
Cash and cash equivalents at the end of the year	9	**29 385 855**	**377 516**

* - Amount has been restated, for details refer to Note 58.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	185 729 000	25 479 829	**211 208 829**	178 270 347	**(32 938 482)**	Due to economic contraints the expected income decreased.
Rental of facilities and equipment	5 050 663	(3 577 118)	**1 473 545**	1 497 060	**23 515**	Income decreased due to letting contracts ending.
Interest received (trading)	28 000 820	3 021 026	**31 021 846**	33 531 202	**2 509 356**	Increased debt contributed to a higher interest levy.
Licences and permits	35 000	3 487	**38 487**	22 720	**(15 767)**	Decrease in payments received from the Department of Justice.
Commissions received	175 000	9 450	**184 450**	265 097	**80 647**	Increase due to additional commissions received.
Sale of land and erven	-	63 612	**63 612**	1 631 658	**1 568 046**	Increase due to land sale.
Other income - (rollup)	1 154 122	3 145 056	**4 299 178**	3 878 137	**(421 041)**	Decrease in sundry services.
Interest received - investment	2 160 000	410 767	**2 570 767**	3 582 050	**1 011 283**	Increased debtors control resulted in interest.
Dividends received	35 000	24 666	**59 666**	59 666	**-**	
Total revenue from exchange transactions	**222 339 605**	**28 580 775**	**250 920 380**	**222 737 937**	**(28 182 443)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	50 000 000	12 335 836	**62 335 836**	66 372 198	**4 036 362**	Due to implementation of new valuation roll.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Transfer revenue						
Government grants & subsidies	278 609 998	7 358 319	**285 968 317**	295 147 986	**9 179 669**	Additional adhoc grants received during the year.
Fines, Penalties and Forfeits	600 000	(323 700)	**276 300**	1 635 725	**1 359 425**	Increase in traffic control.
Total revenue from non-exchange transactions	**329 209 998**	**19 370 455**	**348 580 453**	**363 155 909**	**14 575 456**	
Total revenue	**551 549 603**	**47 951 230**	**599 500 833**	**585 893 846**	**(13 606 987)**	
Expenditure						
Personnel	(207 481 226)	16 883 885	**(190 597 341)**	(187 091 940)	**3 505 401**	Vacant positions contributed to the decrease.
Remuneration of councillors	(11 000 000)	(1 948 307)	**(12 948 307)**	(13 350 038)	**(401 731)**	
Transfer payments - Other	(4 064 291)	(1 288 491)	**(5 352 782)**	(3 545 327)	**1 807 455**	Decrease in registration of indigents.
Depreciation and amortisation	(239 167 445)	(12 915 041)	**(252 082 486)**	(226 647 232)	**25 435 254**	
Impairment loss/ Reversal of impairments	-	-	**-**	(1 268 460)	**(1 268 460)**	
Finance costs	(2 600 000)	(3 164 191)	**(5 764 191)**	(13 188 824)	**(7 424 633)**	Increased due to full utilisation of loans.
Lease rentals on operating lease	(8 327 000)	2 236 122	**(6 090 878)**	(3 006 212)	**3 084 666**	Decrease in rentals due to contracts ending.
Debt Impairment	(56 000 000)	(41 022 669)	**(97 022 669)**	(104 984 116)	**(7 961 447)**	Increased outstanding debt contribute to additional impairment.
Collection costs	(1 000 000)	(54 000)	**(1 054 000)**	(1 506 702)	**(452 702)**	Implementation of debt litigators.
Bulk purchases	(67 000 000)	(3 618 000)	**(70 618 000)**	(70 308 820)	**309 180**	
Contracted Services	11 127 275	2 135 519	**13 262 794**	(12 894 664)	**(26 157 458)**	Due to *Mscoa reclassifications.*
Transfers and Subsidies	(394 000)	(64 612)	**(458 612)**	(241 014)	**217 598**	Less subsidies provided/given.
General Expenses	(72 200 441)	4 308 435	**(67 892 006)**	(40 294 793)	**27 597 213**	Due to *Mscoa* reclassifications.
Total expenditure	**(658 107 128)**	**(38 511 350)**	**(696 618 478)**	**(678 328 142)**	**18 290 336**	
Operating deficit	**(106 557 525)**	**9 439 880**	**(97 117 645)**	**(92 434 296)**	**4 683 349**	
Loss on disposal of assets and liabilities	-	-	**-**	(548 613 472)	**(548 613 472)**	Due to comprehensive asset count

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actuarial gains/(losses)	-	-	**-**	(3 278 597)	**(3 278 597)**	Due to recent valuation
	-	**-**	**-**	**(551 892 069)**	**(551 892 069)**	
Deficit before taxation	**(106 557 525)**	**9 439 880**	**(97 117 645)**	**(644 326 365)**	**(547 208 720)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(106 557 525)**	**9 439 880**	**(97 117 645)**	**(644 326 365)**	**(547 208 720)**	

Reconciliation

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property rates	50 000 000	12 335 836	62 335 836	-		62 335 836	66 372 198		4 036 362	106 %	133 %
Service charges	186 064 000	25 592 283	211 656 283	-		211 656 283	178 270 347		(33 385 936)	84 %	96 %
Investment revenue	2 195 000	435 433	2 630 433	-		2 630 433	3 641 716		1 011 283	138 %	166 %
Transfers recognised - operational	178 643 998	(1 139 681)	177 504 317	-		177 504 317	178 183 986		679 669	100 %	100 %
Other own revenue	34 680 603	2 229 361	36 909 964	-		36 909 964	590 817 419		553 907 455	1 601 %	1 704 %
Total revenue (excluding capital transfers and contributions)	**451 583 601**	**39 453 232**	**491 036 833**	**-**		**491 036 833**	**1 017 285 666**		**526 248 833**	**207 %**	**225 %**
Employee costs	(220 418 958)	28 323 156	(192 095 802)	-	-	(192 095 802)	(187 091 940)	-	5 003 862	97 %	85 %
Remuneration of councillors	-	(12 948 307)	(12 948 307)	-	-	(12 948 307)	(13 350 038)	-	(401 731)	103 %	DIV/0 %
Debt impairment	(56 000 000)	(41 022 669)	(97 022 669)			(97 022 669)	(106 252 576)	-	(9 229 907)	110 %	190 %
Depreciation and asset impairment	(239 167 445)	(12 915 041)	(252 082 486)			(252 082 486)	(226 647 232)	-	25 435 254	90 %	95 %
Finance charges	(2 600 000)	(3 164 191)	(5 764 191)	-	-	(5 764 191)	(13 188 824)	-	(7 424 633)	229 %	507 %
Materials and bulk purchases	(67 000 000)	(3 618 000)	(70 618 000)	-	-	(70 618 000)	(70 308 820)	-	309 180	100 %	105 %
Transfers and grants	(394 000)	(64 612)	(458 612)	-	-	(458 612)	(241 014)	-	217 598	53 %	61 %
Other expenditure	(72 526 725)	6 898 314	(65 628 411)	-	-	(65 628 411)	(1 161 495 587)	-	(1 095 867 176)	1 770 %	1 601 %
Total expenditure	**(658 107 128)**	**(38 511 350)**	**(696 618 478)**	**-**	**-**	**(696 618 478)**	**(1 778 576 031)**	**-**	**(1 081 957 553)**	**255 %**	**270 %**
Surplus/(Deficit)	**(206 523 527)**	**941 882**	**(205 581 645)**	**-**		**(205 581 645)**	**(761 290 365)**		**(555 708 720)**	**370 %**	**369 %**

Setsoto Local Municipality

(Registration number Municipal demarcation code FS191)
Financial Statements for the year ended 30 June 2019

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	99 966 000	8 498 000	108 464 000	-		108 464 000	116 964 000		8 500 000	108 %	117 %
Surplus (Deficit) after capital transfers and contributions	**(106 557 527)**	**9 439 882**	**(97 117 645)**	**-**		**(97 117 645)**	**(644 326 365)**		**(547 208 720)**	**663 %**	**605 %**
Surplus/(Deficit) for the year	**(106 557 527)**	**9 439 882**	**(97 117 645)**	**-**		**(97 117 645)**	**(644 326 365)**		**(547 208 720)**	**663 %**	**605 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2018				
Financial Performance				
Property rates				52 960 740
Service charges				167 135 018
Investment revenue				2 447 490
Transfers recognised - operational				162 806 008
Other own revenue				47 311 876
Total revenue (excluding capital transfers and contributions)				**432 661 132**
Employee costs	-	-	-	(175 808 088)
Remuneration of councillors	-	-	-	(12 747 829)
Debt impairment	-	-	-	(79 722 970)
Depreciation and asset impairment	-	-	-	(176 925 653)
Finance charges	-	-	-	(6 997 866)
Materials and bulk purchases	-	-	-	(53 990 492)
Transfers and grants	-	-	-	(2 110 976)
Other expenditure	-	-	-	(59 812 694)
Total expenditure	**-**	**-**	**-**	**(568 116 568)**
Surplus/(Deficit)				**(135 455 436)**
Transfers recognised - capital				83 997 000
Contributions recognised - capital and contributed assets				4 091 554
Surplus (Deficit) after capital transfers and contributions				**(47 366 882)**
Surplus/(Deficit) for the year				**(47 366 882)**

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating and non-cash generating asset units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives and residual values of property, plant and equipmet and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges of property, plant, equipment and intangible assets. The municipality re-assess the useful lives on an annual basis, considering the conditional and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

GRAP 24: Presentation of budget information

Deviations between the budget and actual amounts are regarded as material if they exceed a 10% deviation.

All material differences are explained in the notes /appendices to the annual financial statements.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Operating lease commitments

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	15 - 80 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements (see note 10).

Accounting Policies

1.3 Investment property (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	10 - 80 years
Plant and machinery	Straight line	2 - 20 years
Furniture and Office equipment	Straight line	5 - 10 years

Accounting Policies

1.4 Property, plant and equipment (continued)

Transport Assets	Straight line	5 - 20 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 - 7 years
Computer Equipment	Straight line	3 - 6 years
Infrastructure - Electricity	Straight line	5 - 50 years
Buildings and other structure (Community)	Straight line	25 - 50 years
Other property, plant and equipment	Straight line	3 - 7 years
Infrastructure Waste Management	Straight line	5 - 40 years
Infrastructure road, Pavement, Bridges and Storm water	Straight line	5 - 80 years
Infrastructure water	Straight line	5 - 80 years
Infrastructure - Waste Water Mananagement	Straight line	10 - 60
Work in process	Straight line	Transfer to assets on completion

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Accounting Policies

1.5 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 - 5 Years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 13).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 13).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Accounting Policies

1.6 Heritage assets (continued)

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

Loans to (from) municipal entities

These include loans to municipal entities and recognised at fair value plus any transaction costs and subsequently measured at cost.

An impairment loss is recognised in the Statement of Financial Performance when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Debtors

Debtors are initially recognised at fair value plus any transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

An estimate is made for doubtful debts based on the categorisation of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified in the Statement of Financial Performance.

Creditors

Trade payables are initially measured at fair value plus any transaction costs,and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

These are initially and subsequently recorded at amortised cost.

For cash flow purposes cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments, and bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Long term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised solely for funding capital projects and the book value is disclosed at amortised cost.

Other financial liabilities are carried at amortised cost.

Loans and receivables

Loans and receivables are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in the Statement of Financial Performance for the period.

1.7 Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

Fixed and Negotiable Deposits

Fixed and negotiable deposits are non-derivative financial assets with fixed or determinable payments and fixed maturities that the municipality will hold to maturity.

Fixed and negotiable deposits are initially and subsequently measured at fair value which in the case of investments that have an original maturity date of less than 12 months equates the cost. Fixed and negotiable deposits held for greater than 12 months are fair valued annually and the difference recognised in the statement of financial performance.

On disposal of Fixed and negotiable deposits, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.8 Tax

The Municipality is exempted from tax in terms of section 10(1)(a) of the Income Tax Act.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.9 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate cost of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.12 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,

1.12 Conditional grants and receipts (continued)

- the amount of the revenue can be measured reliably, and

- to the extent that there has been compliance with any restrictions associated with the grant.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits of service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue should only be recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which-ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,

- the amount of the revenue can be measured reliably, and

- to the extent that there has been compliance with any restrictions associated with the grant.

1.13 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.13 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements.

1.14 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.

- Approved but not yet contracted commitments, where the expenditure has been approved and the contract

  has yet to be awarded or is awaiting finalisation at the reporting date.

- Items are classified as commitments where the municipality commits itself to future transactions that will

  normally result in the outflow of resources.

- Contracts that are entered into before the reporting date, but goods and services have not yet been received

  are disclosed in the disclosure notes to the financial statements.

- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts

  should relate to something other than the business of the municipality.

1.15 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

Value in use

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.16 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

1.16 Impairment of non-cash-generating assets (continued)

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units' approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units' expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.17 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.
Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

Accounting Policies

1.17 Employee benefits (continued)

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit planWhen sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

1.17 Employee benefits (continued)

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability, the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus, any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.17 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

Accounting Policies

1.17 Employee benefits (continued)

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Accounting Policies

1.17 Employee benefits (continued)

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.18 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 54.

1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.19 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When uncertainty arises about the collectibility of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Revenue from rental of facilitites and equipment is recognised on a straightline basis over the term of the lease agreement.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.20 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Assessment Rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.20 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.23 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Irregular expenditure

MFMA Circular No 68 and section 32 of the Municipal Finance Management Act No. 56 of 2003 states the following::

Irregular expenditure is defined in section 1 of the MFMA as follows:

"irregular expenditure", in relation to a municipality or municipal entity, means

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the

1.25 Irregular expenditure (continued)

municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

In this context ‘expenditure’ refers to any use of municipal funds that is in contravention of the following legislation:

- Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- Municipal Systems Act, Act 32 of 2000, and its regulations;
- Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- The municipality’s supply chain management policy, and any by-laws giving effect to that policy

Although a transaction or an event may trigger irregular expenditure, a municipality or municipal entity will only identify irregular expenditure when a payment is made, in other words, the recognition of irregular expenditure will be linked to a financial transaction. If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.27 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the Standard rate (15%) in terms of section 7(1)(a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality account for VAT on a monthly basis.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2018 to 30/06/2019.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Budget information (continued)

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified: those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date). The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the annual financial statements.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2020.The municipality expects to adopt the amendment for the first time in the 2020 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

Notes to the Financial Statements

Figures in Rand	2019	2018

3. Inventories

Consumable Stores	5 575 372	2 860 937
Carrying value of inventories carried at fair value less costs to sell	5 213 536	2 195 563
Inventories recognised as an expense during the year	3 837 180	2 601 472

Obsolete, redundant and slow moving inventory was identified and written down to estimated economic or realisable values to the relevant service through the statement of financial performance.

Inventory pledged as security

No inventory was pledged as security for the current year.

4. Other financial assets

Designated at fair value		
Listed shares	1 126 364	1 009 779
Sanlam		
Unlisted shares	1 288 116	1 235 717
OVK/EFC Shares		
	2 414 480	**2 245 496**
At amortised cost		
Other financial assets	1 308 578	1 234 359
Consist of a Sanlam Redemption fund and a housing collateral at ABSA Bank		
Total other financial assets	**3 723 058**	**3 479 855**

Non-current assets		
Designated at fair value	2 414 480	2 245 496
At amortised cost	1 308 578	1 234 359
	3 723 058	**3 479 855**

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Sanlam	1 126 364	1 009 779

As at 30 June 2019, the Sanlam share value was: R78,16 (2018: R70,07).

Level 3		
OVK	1 288 116	1 235 717

Figures in Rand	2019	2018

4. Other financial assets (continued)

As at 30 June 2019, the OVK share value was as follows:

OVK Operations R15,65 (2018: R15,20)
OVK Holdings R13,60 (2018: R12,90)

	2 414 480	**2 245 496**

Financial assets at amortised cost

Fair values of financial assets measured or disclosed at fair value

Class 1	1 308 578	1 234 359

5. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	56 907 856	61 444 176
Consumer debtors - Electricity	37 396 883	36 438 849
Consumer debtors - Water	152 323 165	154 510 954
Consumer debtors - Sewerage	71 674 009	58 202 075
Consumer debtors - Refuse	95 146 020	75 569 252
Consumer debtors - Other	8 554 729	2 809 974
	422 002 662	**388 975 280**
Less: Allowance for impairment		
Consumer debtors - Rates	(16 141 458)	(11 467 915)
Consumer debtors - Electricity	(11 888 404)	(12 444 174)
Consumer debtors - Water	(63 810 115)	(62 047 934)
Consumer debtors - Sewerage	(34 528 722)	(29 939 465)
Consumer debtors - Refuse	(47 382 261)	(39 777 038)
Consumer debtors - Other	(2 718 565)	(2 054 237)
	(176 469 525)	**(157 730 763)**
Consumer debtors - Rates	40 766 398	49 976 261
Consumer debtors - Electricity	25 508 479	23 994 675
Consumer debtors - Water	88 513 050	92 463 020
Consumer debtors - Sewerage	37 145 287	28 262 610
Consumer debtors - Refuse	47 763 759	35 792 214
Consumer debtors - Other	5 836 164	755 737
	245 533 137	**231 244 517**
Rates		
Current (0 - 30 days)	4 176 118	(2 832 744)
31 - 60 days	2 481 657	2 814 668
61 - 90 days	2 291 393	2 574 250
91 - 120 days	2 213 813	2 654 361
121 - >365 days	45 744 874	56 233 641
Impairment	(16 141 458)	(11 467 915)
	40 766 397	**49 976 261**
Electricity		
Current (0 - 30 days)	11 295 783	7 972 808
31 - 60 days	1 870 707	2 354 649

Notes to the Financial Statements

Figures in Rand	2019	2018
61 - 90 days	948 522	1 209 621
91 - 120 days	1 109 625	1 591 054
121 - >365 days	22 172 246	23 310 717
Impairment	(11 888 404)	(12 444 174)
	25 508 479	**23 994 675**
Water		
Current (0 - 30 days)	12 873 955	25 435 530
31 - 60 days	5 545 886	5 029 465
61 - 90 days	5 508 252	4 875 423
91 - 120 days	5 078 197	4 751 157
121 - >365 days	123 316 874	114 419 379
Impairment	(63 810 115)	(62 047 934)
	88 513 049	**92 463 020**
Sewerage		
Current (0 - 30 days)	5 526 927	2 436 411
31 - 60 days	2 594 059	2 307 269
61 - 90 days	2 539 256	2 162 355
91 - 120 days	2 497 039	2 095 229
121 - >365 days	58 516 729	49 200 811
Impairment	(34 528 722)	(29 939 465)
	37 145 288	**28 262 610**
Refuse		
Current (0 - 30 days)	7 175 661	3 240 205
31 - 60 days	3 389 207	3 004 222
61 - 90 days	3 343 186	2 854 449
91 - 120 days	3 301 450	2 798 300
121 - >365 days	77 936 515	63 672 076
Impairment	(47 382 261)	(39 777 038)
	47 763 758	**35 792 214**
Other		
Current (0 - 30 days)	1 549 069	240 250
31 - 60 days	110 393	80 796
61 - 90 days	96 600	(134 316)
91 - 120 days	150 836	54 714
121 - >365 days	6 647 831	2 568 530
Impairment	(2 718 565)	(2 054 237)
	5 836 164	**755 737**

Summary of debtors by customer classification

	2019	2018
Consumers		
Current (0 - 30 days)	36 530 926	37 083 852
31 - 60 days	13 558 670	11 926 119
61 - 90 days	12 817 932	10 497 394
91 - 120 days	12 385 009	10 965 863
121 - >365 days	295 212 331	261 838 224
	370 504 868	**332 311 452**
Industrial/Commercial		
Current (0 - 30 days)	4 462 271	2 355 690
31 - 60 days	1 353 377	1 011 009

Figures in Rand	2019	2018
61 - 90 days	1 063 398	846 807
91 - 120 days	1 194 428	754 778
121 - >365 days	25 681 467	18 165 130
	33 754 941	**23 133 414**

National and provincial government		
Current (0 - 30 days)	1 604 316	(2 946 217)
31 - 60 days	1 079 863	2 665 337
61 - 90 days	845 879	2 197 580
91 - 120 days	771 522	2 224 174
121 - >365 days	13 441 272	29 390 406
	17 742 852	**33 531 280**

Totals		
Current (0 - 30 days)	42 597 514	36 493 326
31 - 60 days	15 991 910	15 602 464
61 - 90 days	14 727 209	13 541 781
91 - 120 days	14 350 959	13 944 815
121 - >365 days	334 335 069	309 392 892
Less: Allowance for impairment	(176 469 525)	(157 730 761)
	245 533 136	**231 244 517**

Reconciliation of allowance for impairment		
Balance at the beginning of the year	(157 730 761)	(165 119 394)
Contributions to allowance	(104 984 116)	(78 138 083)
Debt impairment written-off against allowance	86 245 352	85 526 716
	(176 469 525)	**(157 730 761)**

6. Receivables from exchange transactions

Consumer debtors - Electricity	25 508 479	23 994 675
Consumer debtors - Water	88 513 050	92 463 020
Consumer debtors - Sewerage	37 145 286	28 262 610
Consumer debtors - Refuse	47 763 758	35 792 214
Consumer debtors - Other	5 836 164	755 737
	204 766 737	**181 268 256**

No consumer debtors were pledged as security for overdraft facilities.

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from date credit was initially granted up to the reporting date. Furthermore the municipality has also placed a strong emphasis on verifying the indigent status of cocentration of credit risk is limited due to customer base being spread over a large number of consumers, and is not concentrated in any particular sector or geographical arear. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

Fair value of trade and other receivables

In determing the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of consumer debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for impairment.

Notes to the Financial Statements

Figures in Rand	2019	2018

7. Receivables from non-exchange transactions

Fines	131 606	216 121
Cashiers short banking	382 557	381 528
Sundry Debtors	6 812 522	6 812 522
Prepayments (Eskom and Fuel Deposits)	2 961 348	2 865 798
Rates (Details as per note 5 above)	40 766 398	49 976 261
	51 054 431	**60 252 230**

8. VAT receivable

The Municipality is registered on the payment basis; VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 427 931	292 530
Short-term deposits	26 948 717	75 778
Cash on hand	9 207	9 207
	29 385 855	**377 515**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assess available) or historical information about counterparty default rates:

Credit rating		
BB	29 376 648	368 308

Cash and cash equivalents pledged as collateral

The Municipality has an overdraft facility of R3,000,000 with First National Bank.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
FNB BANK - Account Account - 620 480 92647	2 372 705	298 587	1 115 314	2 427 931	292 530	1 089 984
FNB BANK - Business Money Market - 621 517 83563	9 540	9 245	79 526	9 540	9 245	79 526
FNB BANK - NSTD Account - 620 490 46205	439 969	10 000	837 313	440 638	14 919	837 313
FNB BANK - Call Account - 623 105 40465	26 317 817	10 000	64 873	26 498 539	51 614	64 873
Total	**29 140 031**	**327 832**	**2 097 026**	**29 376 648**	**368 308**	**2 071 696**

10. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	93 982 952	(26 945 160)	67 037 792	93 982 953	(25 784 285)	68 198 668

Reconciliation of investment property - 2019

	Opening balance	**Depreciation**	**Total**
Investment property	68 198 668	(1 160 876)	67 037 792

Reconciliation of investment property - 2018

	Opening balance	**Depreciation**	**Total**
Investment property	68 648 208	(449 540)	68 198 668

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Deemed cost

Deemed cost was determined using fair value OR depreciated replacement cost.

11. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	56 167 585	(484 898)&	55 682 687	56 167 677	(484 898)&	55 682 779
Furniture and Office Equipment	6 453 151	(5 970 366)	482 785	6 412 905	(5 838 494)	574 411
Transport assets	47 939 999	(14 152 223)	33 787 776	50 340 447	(10 360 126)	39 980 321
Computer equipment	8 347 134	(5 962 443)	2 384 691	7 985 683	(5 372 753)	2 612 930
Infrastructure - Electricity	302 056 111	(125 670 619)	176 385 492	299 447 181	(118 401 663)	181 045 518
Buildings & Other Structure Community)	437 338 251	(142 182 271)	295 155 980	445 134 290	(133 414 046)	311 720 244
Infrastructure - Waste management	24 826 179	(4 933 626)	19 892 553	26 990 239	(4 061 113)	22 929 126
Insfrastructure: Road, Pavement, Bridges & Storm water	1 953 898 311	(1 301 898 822)	651 999 489	2 891 345 249	(1 616 057 518)	1 275 287 731
Machinery & Equipment	5 249 727	(3 942 452)	1 307 275	5 271 976	(3 414 972)	1 857 004
Infrastructure - Waste Water (Sanitation)	577 265 586	(138 379 184)	438 886 402	580 620 120	(134 319 850)	446 300 270
Infrastructure - Water	1 002 827 719	(195 061 259)	807 766 460	982 984 955	(175 772 163)	807 212 792
Total	**4 422 369 753**	**(1 938 638 163)**	**2 483 731 590**	**5 352 700 722**	**(2 207 497 596)**	**3 145 203 126**

& - The Land in the previous financial year was incorrectly classified as a depreciable asset and depreciated with the amount of R484 806. However in the current year it was classified correctly as a non-depreciable asset.

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Work in Progress-additions/transfers completed projects)	Depreciation	Impairment reversal	Total
Land	55 682 779	-	(92)	-	-	-	55 682 687
Furniture and Office Equipment	574 411	107 469	(404)	-	(198 691)	-	482 785
Transport Assets	39 980 321	-	(1 894 391)	-	(4 298 154)	-	33 787 776
Computer Equipment	2 612 930	878 262	(18 043)	-	(1 088 458)	-	2 384 691
Infrastructure Electricity	181 045 518	3 431 408	(6 368 155)	9 643 125	(11 856 469)	490 065	176 385 492
Buildings & Other Structure Community)	311 720 244	16 455 596	(24 249 845)	4 416 322	(13 412 746)	226 409	295 155 980
Infrastructure - Waste management	22 929 126	-	(421 628)	(1 651 821)	(963 124)	-	19 892 553
Insfrastructure: Road, Pavement, Bridges & Storm water	1 275 287 731	19 171 083	(476 068 838)	(13 948 109)	(153 153 405)	711 027	651 999 489
Machinery & Equipment	1 857 004	53 177	(4 277)	-	(598 629)	-	1 307 275
Infrastructure - Waste Water (Sanitation)	446 300 270	11 804 761	(32 881 810)	29 480 154	(16 370 763)	553 790	438 886 402
Infrastructure Water	807 212 792	6 125 000	(8 497 899)	25 602 910	(22 676 343)	-	807 766 460
	3 145 203 126	**58 026 756**	**(550 405 382)**	**53 542 581**	**(224 616 782)**	**1 981 291**	**2 483 731 590**

Notes to the Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	# Transfers received	Work in Progress-additions/transfers completed projects)	Depreciation	Impairment reversal	Total
Land	56 167 677	-	-	-	-	(484 898)	-	55 682 779
Furniture and Office Equipment	407 846	9 606	8 557	252 306	-	(103 904)	-	574 411
Transport Assets	13 200 862	26 801 270	(4 655)	2 801 600	-	(2 818 756)	-	39 980 321
Computer Equipment	2 394 720	470 838	(63 422)	451 596	-	(640 802)	-	2 612 930
Infrastructure Electricity	178 825 514	-	-	7 352 443	5 361 935	(10 494 374)	-	181 045 518
Buildings & Other Structure Community)	303 549 181	550 000	255 300	11 142 681	3 844 516	(8 377 746)	756 312	311 720 244
Infrastructure: Waste Management	23 833 663	-	-	-	-	(904 537)	-	22 929 126
Insfrastructure: Road, Pavement, Bridges & Storm water	1 355 332 043	23 932 758	-	12 527 900	(639 426)	(115 865 544)	-	1 275 287 731
Machinery & Equipment	2 098 899	166 740	(38 272)	225 349	-	(595 712)	-	1 857 004
Insfrastructure - Waste Water (Sanitation)	390 343 880	-	-	45 686 485	23 974 779	(13 704 874)	-	446 300 270
Infrastructure - Water	779 055 221	59 460 315	(800 168)	32 916 384	(44 815 690)	(18 603 270)	-	807 212 792
	3 105 209 506	**111 391 527**	**(642 660)**	**113 356 744**	**(12 273 886)**	**(172 594 417)**	**756 312**	**3 145 203 126**

- During the current year's asset verification process different classes of assets were found not appearig on the fixed asset register. The view of the Municipality on the assets was to retrospectively ammend the fixed asset register in the prior year.

Pledged as security

Carrying value of assets pledged as security:

Transport Assets Transport assets purchased on instalment agreement and financed through ABSA and FNB	26 871 212	29 612 879

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	96 396 523	96 396 523
Additions/capital expenditure	113 133 086	113 133 086
Transferred to completed items	(59 590 507)	(59 590 507)
	149 939 102	**149 939 102**

Description	Opening balance	Cost Addition	Transfer Out	Total
Building and Other structure (Community)	15 187 877	20 928 564	(16 512 242)	19 604 199
Infrastructure Electricity	6 711 386	13 081 860	(3 438 735)	16 354 511
Infrastructure Roads, Pavements and Bridges	17 219 222	5 224 244	(19 172 353)	3 271 113
Infrastructure Waste Management	4 783 629	-	(1 651 821)	3 131 808
Infrastructure Waste Water Management	26 122 008	42 170 509	(12 690 355)	55 602 162
Infrastructure Water	26 372 401	31 727 909	(6 125 000)	51 975 310
	96 396 523	**113 133 086**	**(59 590 506)**	**149 939 103**

During the current year the work in process was recalculated and difference were identified and the work in process was restated.

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	118 256 924	118 256 924
Prior year adjustments	(9 586 515)	(9 586 515)
Additions/capital expenditure	71 119 186	71 119 186
Transferred to completed items	(83 393 072)	(83 393 072)
	96 396 523	**96 396 523**

Description	Opening balance	Prior year adjustments	Cost Addition	Transfer Out	Closing balance
Building and Other structure (Community)	11 343 361	-	3 844 516	-	15 187 877
Infrastructure Electricity	-	1 349 451	5 361 935	-	6 711 386
Infrastructure Roads, Pavements and Bridges	26 733 358	(8 874 710)	23 293 332	(23 932 758)	17 219 222
Infrastructure Waste Management	1 529 652	3 253 977	-	-	4 783 629
Infrastructure Waste Water Management	5 054 695	(2 907 466)	23 974 779	-	26 122 008
Infrastructure Water	73 595 858	(2 407 767)	14 644 624	(59 460 314)	26 372 401
	118 256 924	**(9 586 515)**	**71 119 186**	**(83 393 072)**	**96 396 523**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services - Repair and maintenance	3 548 941	1 518 869

The repairs and maintenance on the property, plant and equipment is incurred in the following categories: Buildings & Other structure (Community) R853 706 (2018: R417 705), Transport Assets R2 652 256 (2018: R1 041 871), Machinery & Equipment R0 (2018: R59 293) and Furniture & Equipment R42 979 (2018: R0).

Notes to the Financial Statements

Figures in Rand	2019	2018

11. Property, plant and equipment (continued)

Expenditure incurred on halted projects

	2019	2018
Ficksburg/Meqheleng Equipment of Boreholes for emergency water supply	-	783 654
Water Demand Management and Water Conservation	-	3 457 018
	-	**4 240 672**

Above mentioned projects are at design and planning stage. In the current year there has been no expenditure incurred on halted projects.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

12. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	4 585 469	(4 069 859)	515 610	5 797 589	(4 223 025)	1 574 564

Reconciliation of intangible assets - 2019

	Opening balance	Disposals	Amortisation	Total
Computer software, other	1 574 564	(189 377)	(869 577)	515 610

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	2 639 535	(1 064 971)	1 574 564

13. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical buildings	15 385 902	-	15 385 902	15 385 903	-	15 385 903

Reconciliation of heritage assets 2019

	Opening balance	Total
Historical buildings	15 385 902	15 385 902

Notes to the Financial Statements

Figures in Rand	2019	2018

13. Heritage assets (continued)

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical buildings	15 385 903	15 385 903

14. Other financial liabilities

	2019	2018
At amortised cost		
Bank loan	4 160 359	4 962 691
Financial liabilities - Instalment sales agreements	24 249 146	30 277 467
	28 409 505	**35 240 158**
Total other financial liabilities	**28 409 505**	**35 240 158**

Refer to Appendix A for further details on the borrowings.

	2019	2018
Non-current liabilities		
At amortised cost	20 772 460	27 317 132
Current liabilities		
At amortised cost	7 637 045	7 923 026

15. Finance lease obligation

	2019	2018
Minimum lease payments due		
- within one year	10 240 511	10 240 511
- in second to fifth year inclusive	14 008 635	20 036 966
	24 249 146	30 277 477
less: future finance charges	(4 734 147)	(7 813 011)
Present value of minimum lease payments	**19 514 999**	**22 464 466**
Present value of minimum lease payments due		
- within one year	6 573 721	6 028 331
- in second to fifth year inclusive	12 941 278	16 436 135
	19 514 999	**22 464 466**

Finance lease obligations are included and form part of total financial liabilities disclosed in the above note.

It is municipality policy to lease certain vehicles, computers, faxes, equipment and photo copy machines under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 11% (2018: 11%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

Figures in Rand	2019	2018

16. Payables from exchange transactions

	2019	2018
Trade payables	90 419 598	50 093 259
Payments received in advanced - contract in process	4 090 234	17 524 096
Bonus - 13th Cheque	4 198 829	4 025 646
Accrued leave pay	14 462 394	12 971 939
Salary control - third parties	12 654 718	14 976 672
Retention monies	7 880 554	6 979 276
Unallocated deposits	4 349 885	1 778 106
Payments received in advance - Prepaid electricity	1 674 850	828 005
	139 731 062	**109 176 999**

17. Consumer deposits

	2019	2018
Electricity	2 825 622	2 540 477
Water	57 319	60 760
Rental Deposits	336 319	186 529
	3 219 260	**2 787 766**

Guarantees held in lieu of electricity and other deposits

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2019	2018
Unspent conditional grants and receipts		
Provincial Government - Free State	8 979 260	8 979 260

Movement during the year

	2019	2018
Balance at the beginning of the year	8 979 260	11 066 877
Additions during the year - refer to Note 27.	295 147 986	246 770 007
Income recognition during the year - refer to Note 27.	(295 147 986)	(247 006 107)
Repayment of Unspent Grants	-	(1 851 517)
	8 979 260	**8 979 260**

19. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	11 264 000	3 859 550	15 123 550
Long service bonus (Short term portion)	1 217 000	47 969	1 264 969
Long service bonus (Long term portion)	8 753 000	2 472 775	11 225 775
	21 234 000	**6 380 294**	**27 614 294**

Notes to the Financial Statements

Figures in Rand	2019	2018

19. Provisions (continued)

Reconciliation of provisions - 2018

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	10 496 000	768 000	-	11 264 000
Long service bonus (short term portion)	1 446 000	-	(229 000)	1 217 000
Long service bonus (long term portion)	8 100 000	653 000	-	8 753 000
	20 042 000	**1 421 000**	**(229 000)**	**21 234 000**

	2019	2018
Non-current liabilities	26 349 325	20 017 000
Current liabilities	1 264 969	1 217 000
	27 614 294	**21 234 000**

1. Long Service Bonus

An actuarial valuation of the liability in respect of the long service awards was performed by an independent company.

The primary purpose of this valuation is to enable the municipality to comply with the requirements of GRAP 25. The liability amounts are calculated in accordance with GRAP 25 and can therefore be used in the compilation of the Annual Fiancial Statements of the Municipality.

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in the future.

Membership Data		
Number of current employees	642	662

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value long service awards liability - wholly unfunded	(9 970 000)	(9 546 000)
Service cost	(870 000)	(914 000)
Interest cost	(819 000)	(769 000)
Actuarial benefits paid	1 217 000	1 446 000
Actuarial gains/(losses)	(2 048 744)	(187 000)
As at 30 June	**(12 490 744)**	**(9 970 000)**

Valuation Assumptions

In estimating the unfunded liability for Long Service Award of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

We have conducted these valuations for about 200 municipalities in South Africa over a period of 15 years, which has enabled us to generate a large database relating to municipal employees. Using this information, we recently performed analysis to assess appropriate ballpark-levels for the demographic assumptions required in municipal GRAP 25 actuarial valuations. This has led to a material change in a couple of assumptions used (which were recommended and agreed to by the Municipality).

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the Long Service Awards arrangement - this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

The key financial and demographic assumptions are summarised below.

19. Provisions (continued)

Financial variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

The two most important fiancial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variables	Assumed Value at 30-06-2019 (Current Valuation)	Assumed Value at 30-06-2018 (Preceding Valuation)
Discount Rate	8,12 %	8,75 %
CPI (Consumer Price Inflation)	4,50 %	5,36 %
Normal Salary Increase Rate	5,54 %	6,36 %
Net Effective Discount Rate	2,44 %	2,25 %
	- %	**- %**

Discount Rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8,12% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payments of long service awards, for each employee. The 8,12% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability -weighted index-linked yield is 2,95%. These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the JSE after the market lose on 28 June 2019. The liability-weighted average term of the liability is 6,74 years.

Earnings Inflation Rate

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's earnings at the date of the award.

The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Escalation. The latter is considered under demographic assumptions.

General Earnings Inflation

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1,5% above CPI inflation.

The expected inflation assumption of 4,54% was obtained from the differential between market yields on index-linked bonds (2,5%) consistent with the estimated terms of the liabilitites and those of nominal bonds (8,12%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0,50%). Therefore, expected inflation is determined as ((1+8,12%-0,50%)/(1+2,95%))-1.

Thus, a general earnings inflation rate of 5,54% per annum over the expected term of the liability has been assumed, which is 1,00% higher than the estimate of CPI inflation over the same term. This assumption refelcts a net discount rate of 2,44%.

It has been assumed that the next earnings increase will take place on 1 July 2020.

19. Provisions (continued)

Demographic Assumptions

Demographic assumptions are required about the future characteristics of current employees who are eligible for Long Service Awards.

We have conducted GRAP 25 actuarial valuations for about 200 municipalities accross South Africa over a period of about 15 years, which has enabled us to generate a large database relating to current and former municipal employees. Using this information, we recently performed analysis to assess appropriate ballpark-levels for the demographic assumptions required in municipal GRAP 25 actuarial valuations. The following assumptions were revised to reflect the results of our analysis: average retirement age and withdrawal rates.

Promotional Earnings Scale

The annual inflation rates below are in addition to the General Earninigs Inflation assumption of 5,54% per annum for all employees.

In addition to the normal salary inflation rate, we assumed the following promotional salary increase:

Promotional Earnings Scale:

Age Band	Additional promotional scale
20 - 24	5 %
25 - 29	4 %
30 - 34	3 %
35 - 39	2 %
40 - 44	1 %
>44	0 %
	-

Average Retirement Age

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of all ill-health and early retirement.

Pre-retirement Mortality

SA85-90 ultimate table, adjusted down for female lives.

Withdrawal from Service

If an employee leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Age Band	Withdrawal Rate Females	Withdrawal Rate Males
20 - 24	9 %	9 %
25 - 29	8 %	8 %
30 - 34	6 %	6 %
35 - 39	5 %	5 %
40 - 44	5 %	5 %
45 - 49	4 %	4 %

Figures in Rand		2019	2018

19. Provisions (continued)

	50 - 54	3 %	3 %
	55 - 59	0 %	0 %
	60 +	0 %	0 %
		-	-

Environmental Rehabilitation (Landfill Sites)

In terms of the Mineral and Petroleum Resources Development Act, 2002 (No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites at Ficksburg, Clocolan, Marquard and Senekal. Provision has been made for this cost based on actual cost calculations received from Consulting Engineers. The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The following assumptions were used to calculate the provision:

- Total area expected to be rehabilitated: 125 500 square metres;

- Average rate per square metre: R120,53 escalating every year 6,4%;

- Total area to be rehabilitated can reconciled to the different sites as follows:

Ficksburg	38 000 m^2
Senekal	32 400 m^2
Marquard	27 000 m^2
Clocolan	28 100 m^2

Each of the landfill sites have different remaining lifespans ranging from 3 years to 26 years.

Ficksburg	20 Years
Senekal	26 Years
Marquard	3 Years
Clocolan	3 Years

20. Employee benefit obligations

Defined benefit plan

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below and which are administrated by various pension, provident and annuity funds.

These plans are subject to the Pension Fund Act, 1956 (Act No. 24 of 1956) and include defined contribution plans.

The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specified contributions.

20. Employee benefit obligations (continued)

Sufficient information was not available to use defined benefit accounting for the funds and it was accounted for as defined contribution plans due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers;
- One set of financial statements are compiled for all the funds and not for each participating employer; and
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

Defined contribution plans

The following are defined contribution plans:

- Free State Municipal Provident Fund
- South African Local Authorities Provident Fund
- National Fund for Municipal Workers
- Municipal Employees Pension Fund
- South African Municipal Workers Union Provident Fund
- Municipal Councillors Pension Fund.

The following are defined benefit plans

- Free State Municipal Pension Fund
- South African Local Authorities Pension Fund

These are not treated as a defined benefit plan as defined by GRAP 25, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund are R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million). The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund were on 30 June 2015. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund are R1 308 million which is adequately financed by assets of R 1 531 million. The actuarial valuation determined that the retirement plan was in a sound financial position.

Figures in Rand	2019	2018

20. Employee benefit obligations (continued)

Post retirement medical aid plan

The Post-retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

In-service (employee) members	515	534
Contribution members (e.g. Retirees, widows, orphans)	35	41
Total members	**550**	**575**

In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP 25. The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme;
- Bonitas Medical Scheme;
- Hosmed Medical Scheme;
- Samwumed Medical Scheme; and
- KeyHealth Medical Scheme

The amounts recognised in the statement of financial position are as follows:

Present value of the benefit obligation - wholly unfunded	(45 332 000)	(63 087 000)
Service cost	(2 830 000)	(3 602 000)
Interest cost	(4 414 000)	(5 044 000)
Actuarial benefits paid	576 000	1 612 000
Actuarial gains/(losses)	5 910 147	24 789 000
As at 30 June	**(46 089 853)**	**(45 332 000)**

Valuation Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation date for the period over which the liability obligations are to be settle.

<u>Discount Rate</u>

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 9.51% per annum has been used. The corresponding index-linked yield at this term is 3.37%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 28 June 2019.

20. Employee benefit obligations (continued)

These rates were calculated by using a liability-weighted average of the yields for the two components of the liability. Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields). The two components are as follows:

Component	Duration (Years)	Fixed Interest-Yield	Index Linked-Yield
In-service members' retirement liability	24,89	9,89 %	3,44 %
Continuation members' liability	9,41	8,70 %	3,22 %
Liability-weighted average	**19,96**	**9,51 %**	**3,00 %**

Health Care Cost Inflation Rate

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.96% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.46%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 2.38% which derives from ((1+9.51%)/(1+6.96%))-1.

The expected inflation assumption of 5.46% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.37%) and those of fixed interest bonds (9.51%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+9.51%-0.50%)/(1+3.37%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2020.

Maximum Subsidy Inflation Rate

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 4,492.35 for the year ending 30 June 2020. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation. The future salary inflation assumption of 6.46%, was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 4.85% was assumed. The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2020.

Replacement Ratio

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Demographic Assumptions

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

We have conducted GRAP 25 actuarial valuations for about 200 municipalities across South Africa over a period of about 15 years, which has enabled us to generate a large database relating to current and former municipal employees. Using this information, we recently performed analyses to assess appropriate ballpark-levels for the demographic assumptions required in municipal GRAP 25 actuarial valuations.

20. Employee benefit obligations (continued)

The following assumptions were revised (with the Municipality's agreement) to reflect the results of our analyses: average retirement age, membership continuation rate at retirement, proportion with a spouse dependant at retirement and withdrawal rates. In addition, we have added a mortality-improvement component to the post-employment mortality assumption to reflect the current trend of decreasing mortality rates for pensioners in South Africa.

Mortality During Employment

SA85-90 ultimate table, adjusted for female lives.

Post-Employment Mortality

PA(90) ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010. This means that we expect 1% less people to die next year than under the scenario without mortality improvement. In the following year, we expect 1.99% less people to die than under the scenario without mortality improvement, i.e. 1.99% is derived from [1 - $(1 - 1\%)^2$], and so on.

Withdrawal from Service

If an in-service member leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Age Band	Withdrawal Rate Females	Withdrawal Rate Males
20 - 24	9 %	9 %
25 - 29	8 %	8 %
30 - 34	6 %	6 %
35 - 39	5 %	5 %
40 - 44	5 %	5 %
45 - 49	4 %	4 %
50 - 54	3 %	3 %
55 - 59	0 %	0 %
60+	0 %	0 %
	-	-

Average Retirement Age

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement.

Continuation of Membership

It has been assumed that 75% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

Family Profile

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, we've assumed that 60% of eligible in-service members on a health care arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

Medical Scheme Option

It has been assumed that continuation members will remain on the same medical scheme and option.

Notes to the Financial Statements

Figures in Rand	2019	2018

20. Employee benefit obligations (continued)

In-service members were assumed to remain on the same medical scheme and option, should they continue to receive the subsidy after retirement.

Plan Assets

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Other Assumptions

It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

21. VAT payable

Tax payable	3 629 936	8 021 325

The Municipality is registered on the payment basis; VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

22. Service charges

Sale of electricity	71 317 247	68 344 966
Sale of water	49 759 219	46 965 004
Sewerage and sanitation charges	26 223 005	20 930 724
Refuse removal	30 468 642	30 564 815
Other service charges	502 234	329 509
	178 270 347	**167 135 018**

23. Other income

Sundry income	3 054 325	1 259 207
Cemetery fees	823 812	700 090
Post-retirement Medical Actuarial Gain	-	17 755 000
	3 878 137	**19 714 297**

Unallocated deposits older than 3 years have been receipted as Sundry income in terms of the implementation of the Council policy.

24. Rental of facilities and equipment

Premises	1 497 060	1 191 601

Notes to the Financial Statements

Figures in Rand	2019	2018

25. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	59 666	51 142
Interest revenue		
Interest earned on cash and bank	255 207	185 229
Investment and short term deposits	3 326 843	2 211 119
	3 582 050	**2 396 348**
	3 641 716	**2 447 490**

26. Property rates

Rates received

Residential	53 235 051	40 544 501
State	18 967 585	23 943 120
Less: Income forgone	(5 830 438)	(11 526 881)
	66 372 198	**52 960 740**

Valuations

Residential	2 708 807 700	2 386 124 260
Commercial	543 248 000	342 612 400
State	462 064 100	306 721 600
Municipal	558 858 100	5 550 100
Small holdings and farms	4 009 768 500	2 250 847 220
Churches	71 348 900	46 134 000
	8 354 095 300	**5 337 989 580**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.02- (2018: R0.04) is applied to property valuations to determine assessment rates of residential.
A general rate of R0.04- (2018: R0.08) is applied to property valuations to determine assessment rates of business.

Rebates of 50% (2018: 79%) are granted to residential, commercial and small holdings and farm property owners.

Rates are levied on an annual basis with equal payments over twelve months. Interest at prime plus 1% per annum is levied on outstanding rates.

The general valuation was implemented on 1 July 2018.

27. Government grants and subsidies

Operating grants		
Equitable share	173 927 000	157 656 001
EPWP Grant	1 517 000	1 889 000
Financial Management Grant (FMG)	1 700 000	1 700 000
SETA Funding	339 986	1 561 007
Financial and Infrastructure Support Grant	700 000	-
	178 183 986	**162 806 008**
Capital grants		
Municipal Infrastructure Grant	57 782 000	47 997 000
Department of Water Affairs Grant	33 500 000	30 000 000
National Government - Integrated National Electricity Grant	682 000	6 000 000
National Government - Regional Bulk Infrastructure	25 000 000	-
	116 964 000	**83 997 000**
	295 147 986	**246 803 008**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Equitable Share

Current-year receipts	173 927 000	157 656 000
Conditions met - transferred to revenue	(173 927 000)	(157 656 000)
	-	-

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 425 (2018: R 337), which is funded from the grant.

MIG Grant

Current-year receipts	57 782 000	47 997 000
Conditions met - transferred to revenue	(57 782 000)	(47 997 000)
	-	-

In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The municipality reports at year -end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budget to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants were used construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

EPWP Grant

Current-year receipts	1 517 000	1 889 000
Conditions met - transferred to revenue	(1 517 000)	(1 889 000)
	-	-

Figures in Rand	2019	2018

27. Government grants and subsidies (continued)

Department of Water Affairs Grant

Current-year receipts	33 500 000	15 000 000
Conditions met - transferred to revenue	(33 500 000)	(15 000 000)
	-	-

This grant was used to address water loss control and assisting with water shortages in Clocolan, Marquard and Senekal during drought period.

Financial Management Grant (FMG)

Current-year receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 700 000)
	-	-

COGTA also contributed R700 000 per year towards the Municipal Manager's salary.

INEG Grant

Balance unspent at beginning of year	-	1 351 517
Current-year receipts	682 000	6 000 000
Conditions met - transferred to revenue	(682 000)	(6 000 517)
Amount repaid due to under spending of grant	-	(1 351 000)
	-	-

This grant is provided by the Department of Energy to upgrade the electric network.

SETA Funding

Balance unspent at beginning of year	-	236 100
Current-year receipts	339 986	1 324 907
Conditions met - transferred to revenue	(339 986)	(1 561 007)
	-	-

SETA will ensure that the skill requirements sector is identified and that adequate and appropriate skills are readily given to staff of the Municipality.

Rural Bulk Infrastructure Grant

Current-year receipts	25 000 000	15 000 000
Conditions met - transferred to revenue	(25 000 000)	(15 000 000)
	-	-

The amount received was spent in full during the financial year.

Notes to the Financial Statements

Figures in Rand	2019	2018

27. Government grants and subsidies (continued)

Provincial Government Free State

Balance unspent at beginning of year	8 979 260	9 479 260
Current-year receipts	700 000	-
Conditions met - transferred to revenue	(700 000)	-
Other	-	(500 000)
	8 979 260	**8 979 260**

Conditions still to be met - remain liabilities (see note 18).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, applicable for the financial year, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

28. Revenue

Service charges	178 270 347	167 135 018
Rental of facilities and equipment	1 497 060	1 191 601
Interest received (trading)	33 531 202	24 176 660
Licences and permits	22 720	189 626
Commissions received	265 097	241 353
Sale of land	1 631 658	109 511
Other income	3 878 137	19 714 297
Interest received - investment	3 582 050	2 396 348
Dividends received	59 666	51 142
Property rates	66 372 198	52 960 740
Government grants & subsidies	295 147 986	246 803 008
Public contributions and donations	-	4 091 554
Fines, Penalties and Forfeits	1 635 725	1 688 828
	585 893 846	**520 749 686**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	178 270 347	167 135 018
Rental of facilities and equipment	1 497 060	1 191 601
Interest received (trading)	33 531 202	24 176 660
Licences and permits	22 720	189 626
Commissions received	265 097	241 353
Sales of land	1 631 658	109 511
Other income	3 878 137	19 714 297
Interest received - investment	3 582 050	2 396 348
Dividends received	59 666	51 142
	222 737 937	**215 205 556**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	66 372 198	52 960 740
Transfer revenue		
Government grants & subsidies	295 147 986	246 803 008
Public contributions and donations	-	4 091 554
Fines, Penalties and Forfeits	1 635 725	1 688 828
	363 155 909	**305 544 130**

Notes to the Financial Statements

Figures in Rand	2019	2018

29. Employee related costs

Basic salary	110 000 917	103 592 298
Medical aid - company contributions	13 770 163	11 908 195
Unemployment Insurance Fund	1 096 670	1 076 686
Workers Compensation Act Levies	308 000	755 213
Skills Development Levies	1 501 694	1 520 098
Leave pay provision charge	2 643 901	3 739 189
Defined contribution plans	20 206 155	20 638 471
Travel, motor car, accommodation, subsistence and other allowances	12 265 780	12 005 225
Overtime payments	9 750 083	8 527 445
Long-service awards	770 454	789 976
Acting allowances	2 556 855	1 236 156
Housing benefits and allowances	2 314 455	545 468
Holiday Bonus	9 207 292	8 692 672
Allowance - Telephone	631 376	715 120
Industrial Council Levies	68 145	65 876
	187 091 940	**175 808 088**

Remuneration of Municipal Manager: Mr S T R Ramakarane

Salary	914 217	2 115 471
Bonus	77 274	-
Backpay	13 066	-
Travel allowance	165 163	173 805
Housing Allowance	114 410	-
Cellphone allowance	40 404	-
Non Pension Allowance	778 270	-
Reimbursive Tax	103 812	-
Subsistance Allowance	11 790	-
Allowance not tax	660	-
Company contributions	21 606	-
Other	-	103 273
	2 240 672	**2 392 549**

COGTA financed an annual amount of R700 000.00 towards the salary of the Municipal Manager.

Remuneration of Chief Finance Officer - Mr G T Banda

Annual Remuneration	-	275 106
Travel allowance	-	84 282
	-	**359 388**

Mr GT Banda resigned on 30 September 2017.

Remuneration of acting Chief Financial Officer - Mr D J van Tonder

Acting allowance	63 793	199 321

Mr van Tonder was acting CFO for the period 16 October 2018 till 31 December 2018. During Mrs Masisi's sick leave.

Remuneration of acting Chief Financial Officer - Mrs M Marx

Acting allowance	76 091	-

Mrs M Marx was acting CFO for the period 29 March 2019 to 30 June 2019.

Remuneration of Chief Financial Officer - Mrs M O Masisi

Notes to the Financial Statements

Figures in Rand	2019	2018

29. Employee related costs (continued)

Salary	389 920	84 618
Bonus	40 562	-
Absenteeism	(22 651)	-
BackPay	11 423	-
Travel allowance	64 215	13 539
Housing allowance	29 432	6 205
Cell Phone	10 703	2 257
Non Pensionable	129 768	27 360
Reimbursive Tax	29 514	-
Subsistance Allowance	5 580	-
Allowance not taxed	732	-
Leave Pay Out	17 151	-
Company contributions	7 990	-
	714 339	**133 979**

Mrs Mathapelo Masisi was appointed on 1 May 2018 and service terminated on the 29 March 2019.

Remuneration of Director Corporate Services - Mr M Ntheli

Annual Remuneration	-	228 966
Travel, accommodation, motor car and other subsistence allowances	-	63 719
	-	**292 685**

Mr M Ntheli was appointed as the Director Corporate Services from 1 January 2018 and resigned from the position on the 2 February 2018.

Remuneration of Acting Corporate Services Director - Ms S Mihailescu

Acting allowance	114 137	163 732

Mrs Mihailescu was acting Corporate Services Director for the period 1 August 2017 till 31 December 2017 and 08 September 2018 to 06 December 2018.

Remuneration of Corporate Services Director - Mr T Masejane

Annual Remuneration	-	85 797
Travel, accommodation, motor car and other subsistence allowances	-	20 355
	-	**106 152**

Mr T Masejane ended his contract on 31 July 2017.

Remuneration of Acting Corporate Services Director - Mrs BL Mokoena

Acting allowance	335 508	106 252

Mrs Mokoena was acting director Corporate Services from period 1 July 2018 to 07 September 2018 and 07 December 2018 to 31 May 2019.

Remuneration of Director Development, Planning, Security Services - Mr M Ntheli

Annual Remuneration	-	397 534
Travel, accommodation, motor car and other subsistence allowances	-	59 741
	-	**457 275**

29. Employee related costs (continued)

Mr M Ntheli ended his contract on 30 November 2017.

Remuneration of Acting Director Development, Planning, Security Services - Mr ME Fokane

Acting allowance	-	57 480

Mr ME Fokane acted as Director Development, Planning, Security Services for the period 1 November 2017 till 31 December 2017.

Remuneration of Director Development, Planning, Security Services - Mr T Zondo

Salary	641 828	397 163
Bonus	54 652	78 611
Backpay	14 000	4 796
Travel allowance	90 013	-
Housing allowance	27 140	-
Cellphone allowance	14 969	-
Reimbursive tax	18 407	-
Subsistence allowance	956	-
Non pensionable allowance	49 271	-
Company contributions	10 497	-
	921 733	**480 570**

Mr T Zondo was appointed as Director Development, Planning, Security Services from 1 January 2018.

Remuneration for Engineering Services Director - Mrs TF Zondi

Annual Remuneration	-	711 449
Travel, accomodation, motor car and other subsistance allowances	-	226 983
Other	-	240 672
	-	**1 179 104**

Mrs TF Zondi ended her contract on 31 March 2018.

Remuneration for Technical Services Director (Acting) - Mr MA Mokhethoa

Acting allowance	120 818	85 625

Mr MA Mokhethoa was appointed as Acting Director Engineering Services from 01 April 2018 to 30 June 2018 and 01 July 2018 to 01 September 2018.

Remuneration of acting Engineering Services Director - Mr S Kunene

Acting allowance	181 232	-

Mr S Kunene appointed as Acting Director Engineering Services from 01 September 2018 to 28 March 2019.

Remuneration of acting Engineering Services Director - Mr MS Radiopane

Acting allowance	65 283	-

Mr MS Radiopane appointed as Acting Director Engineering Services from 29 March 2019 to 30 June 2019.

Notes to the Financial Statements

Figures in Rand	2019	2018

30. Remuneration of councillors

Executive Mayor	880 449	871 526
Mayoral Committee Members	3 850 026	3 690 188
Speaker	715 126	683 212
Councillors	7 904 437	7 502 901
	13 350 038	**12 747 827**

31. Administrative expenditure

The Executive Mayor, Speaker and Mayoral Committee are appointed on a full-time basis. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor and Speaker has use of a Council owned vehicle for official duties.

32. Depreciation and amortisation

Property, plant and equipment	225 777 655	174 871 786
Investment property	-	1 160 868
Intangible assets	869 577	892 999
	226 647 232	**176 925 653**

33. Impairment of assets

Impairments		
Impairment Fines Debtors	1 268 460	1 584 887

34. Finance costs

Trade and other payables	9 488 170	4 347 681
Bank	35 873	13 392
Current borrowings	3 664 781	2 636 793
	13 188 824	**6 997 866**

35. Debt impairment

Contributions to debt impairment provision	18 738 763	(7 388 633)
Bad debts written off	86 245 353	85 526 716
	104 984 116	**78 138 083**

36. Bulk purchases

Electricity	70 308 820	53 990 492

Notes to the Financial Statements

Figures in Rand	2019	2018

37. Contracted services

Presented previously		
Information Technology Services	70 145	627 084
Fleet Services	3 012 056	428 291
Operating Leases	113 066	26 195
Specialist Services	9 590 521	10 979 434
Other Contractors	105 263	1 319 023
Contractors		
Maintenance of Assets	3 613	-
	12 894 664	**13 380 027**

38. Transfers and subsidies

Other subsidies		
Distitutional help	241 014	2 110 976

39. Assets write-off

Assets write-off during the year	548 613 472	911 536

During the current year the Municipality disposed of old and redundant assets.

There were also assets that were destroyed due to fire and were paid out through insurance.

Also refer to Note 11.

40. General expenses

Advertising	1 117 637	(142 898)
Auditors remuneration	510 773	529 941
Bank charges	363 619	570 291
Entertainment	64 967	27 467
Insurance	1 232 272	1 029 328
Community development and training	1 459 746	1 453 330
Conferences and seminars	565 724	1 722 260
IT expenses	3 168 724	1 948 588
Fuel and oil	7 896 217	5 213 003
Postage and courier	416 530	925 334
Printing and stationery	417 513	162 618
Protective clothing	270 873	810 176
Royalties and license fees	697 616	573 682
Security (Guarding of municipal property)	793 048	1 024 532
Subscriptions and membership fees	2 125 291	1 893 679
Telephone and fax	834 900	967 027
Travel - local	1 530 626	1 538 350
Tourism development	4 608	200 000
Laboratory Services - Water	164 421	393 989
Departmental consumption - Inventory	6 175 442	4 206 116
Ward committee expenses	2 308 528	2 115 475
Water & Chemicals	8 071 066	8 802 118
Other expenses	104 652	39 286
	40 294 793	**36 003 692**

Notes to the Financial Statements

Figures in Rand	2019	2018

41. Cash generated from operations

Deficit	(644 326 365)	(47 366 882)
Adjustments for:		
Depreciation and amortisation	226 647 232	176 925 653
Assets write-off	548 613 472	911 536
Impairment deficit	1 268 460	1 584 887
Debt impairment	104 984 116	78 138 083
Movements in retirement benefit assets and liabilities	757 853	(17 755 000)
Movements in provisions	6 380 294	1 192 000
Other non-cash items - correction of prior prior years payables	-	251 185
Changes in working capital:		
Inventories	(2 714 435)	(440 816)
Receivables from exchange transactions	(23 498 481)	(119 017 804)
Other receivables from non-exchange transactions	(104 984 116)	(1 305 816)
Other receivables from non-exchange transactions	7 929 339	-
Payables from exchange transactions	30 554 063	(1 361 312)
VAT	(4 391 389)	6 998 025
Unspent conditional grants and receipts	-	(2 087 617)
Consumer deposits	431 494	274 422
	147 651 537	**76 940 544**

42. Capital commitments

Commitments in respect of capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	62 641 913	97 599 130
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	75 387 677	13 797 100

Total capital commitments		
Already contracted	62 641 913	97 599 130
Not yet contracted	75 387 677	13 797 100
	138 029 590	**111 396 230**

43. Related parties

Related party transactions

Purchases from (Sales to) related parties		
ERB Marketing & Business Solution	210 000	135 000
Itumeleng Building & Training	5 610	82 105
Selane Transport	-	2 000
Mohautse Taxis	10 400	7 000
Mthembana Construction	-	11 070
Lira Transport	5 850	-
Mthembana Construction	12 150	-
Eternal City Trading	243 695	-
	487 705	**237 175**

Notes to the Financial Statements

Figures in Rand	2019	2018

43. Related parties (continued)

The IT Specialist has close family relations with the management of ERB Marketing that maintains the website of Council.

The owner of Itumeleng Building and Training has close relations with the Manager: Human Resources Mrs B L Mokoena.

The owner of Mthembana Construction has close family relations to Ms S. Metithafa in Corporate Services.

The owner of Selane Transport is an employee(Ms N M A Selane) in the Traffic division of the municipality.

The owner of Mohautse Taxis has close family relations to Mr S Mohautse in Finance Services.

The owner of Lira Transport has close family relations to Mrs MP Lira in the Asset Management services.

The owner of Eternal City Trading has close family relations to Mr LZ Tlale in the Planning and Property Management Department.

44. Unauthorised expenditure

	2019	2018
Opening balance	262 833 219	483 061 977
Unauthorised expenditure	608 674 203	17 301 739
Unauthorised expenditure approved/condoned by Council	(23 845 718)	(237 530 497)
	847 661 704	**262 833 219**

Unauthorised expenditure derived mainly from the correction and revaluation of assets which results in a loss which is a non-cash financial entry against the accumulated surplus account.

	2019	2018
Details of unauthorised expenditure		
Overspending of expenditure votes, mainly contributed by depreciation on revalued assets (current replacement cost basis).	608 674 203	17 301 739

45. Fruitless and wasteful expenditure

	2019	2018
Opening balance	623 210	723 342
Fruitless and wasteful expenditure	2 979 591	3 350 092
Less: Amounts written off	(3 571 133)	(3 450 224)
	31 668	**623 210**

	2019	2018
Details of fruitless and wasteful expenditure		
Payments made on interest and penalties	31 668	301 701
Interest paid on VAT submission 2017/2018	-	273 179
Interest paid on VAT submission 2016	-	48 330
	31 668	**623 210**

46. Irregular expenditure

Opening balance	49 813 134	30 737 009
Add: Irregular Expenditure - current year	102 965 433	98 765 998
Add: Cashiers short banking - Under investigation	1 030	381 527
Less: Amounts written off previous year	(36 760 451)	(26 603 022)
Less: Amounts written off current year	(48 160 304)	(53 468 378)
	67 858 842	**49 813 134**

Details of irregular expenditure – current year

		-

Details of irregular expenditure		
Expenditure items identified where the SCM processes and procedures were not followed	97 427 117	9 740 224
Short comings on SCM committee	-	52 570 892
Deviations not approved by the Municipal Manager	-	2 040 487
Expenditure under investigation. No final outcome from MPAC	-	3 190 349
Short comings on SCM committee identified during the audit	-	31 605 573
Procurement without inviting competitive bids/Quoatations	4 123 840	-
Non-compliance with legislation on contracts	1 414 476	-
Cashier's short banking - under investigation	1 030	-
	102 966 463	**99 147 525**

47. Audit and Performance Audit Committee Fees

Audit and Performance Audit Committee	510 773	529 941

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Opening balance	(13 613)	(13 613)
Current year subscription / fee	2 074 810	1 829 080
Amount paid - current year	(1 971 766)	(1 829 080)
	89 431	**(13 613)**

Reticulation(Distribution) losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

The implementation of prepaid electricity meters contributed positively to the decrease in electricity losses.

The prescribed norm from National Treasury for electricity losses is estimated to be between 7% and 10%

Electricity		
Estimated electricity losses	8 928 564	2 871 219

Electricity		
Percentage loss	11 %	4 %

Estimated water losses suffered by the municipality for the year under review is as follows:

Estimated water losses included distribution to townships with unmetered water.

The prescribed norm from National Treasury for water losses is estimated to be between 15% and 30%.

Notes to the Financial Statements

Figures in Rand

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Water

Estimated water losses	15 342 187	7 044 679

Water

Percentage loss	42 %	26 %

Skills Development Levies

Opening balance	615 724	234 016
Current year subscription / fee	1 620 598	1 520 318
Amount paid - current year	(1 833 416)	(1 138 610)
	402 906	**615 724**

Audit fees

Opening balance	300 159	212 750
Current year subscription / fee	6 756 733	5 690 211
Amount paid - current year	(3 937 425)	(5 602 802)
	3 119 467	**300 159**

PAYE and UIF

Opening balance	6 780 115	1 582 328
Current year subscription / fee	23 368 093	20 875 962
Amount paid - current year	(23 969 306)	(15 678 175)
	6 178 902	**6 780 115**

Pension and Medical Aid Deductions

Opening balance	4 033 358	4 687 384
Current year subscription / fee	49 886 117	46 566 915
Amount paid - current year	(49 611 687)	(47 220 941)
	4 307 788	**4 033 358**

VAT

VAT receivable	39 349 157	11 758 854
VAT payable	(42 979 093)	(19 780 179)
	(3 629 936)	**(8 021 325)**

VAT output payables and VAT input receivables are shown in note 21.

Notes to the Financial Statements

Figures in Rand

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor RS Lipoko	4 130	5 361	9 491
Councillor RS Liphoko	4 860	26 710	31 570
Councillor MO Mokhele	5 994	6 855	12 849
Councillor PE Koqo	1 723	1 838	3 561
Councillor KS Mokhuoane	2 195	24 117	26 312
Councillor TJ & PE Matobako	2 170	11 705	13 875
Councillor AN Maoke	7 869	1 156	9 025
Councillor TG Makhalanyane	1 810	13 520	15 330
Councillor A Taylor	1 968	14 411	16 379
Councillor TP Jakobo (Plus one other)	5 531	41 186	46 717
Councillor TI Mthimkhulu	5 737	7 708	13 445
	43 987	**154 567**	**198 554**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor TB Jakobo	8 574	48 162	56 736
Councillor PC Matobako	1 903	22 851	24 754
Councillor EM Makobane	1 501	17 315	18 816
Councillor KE Koalane	1 447	17 116	18 563
Councillor TI Mthimkhulu	4 158	16 345	20 503
Councillor RS Liphoko	2 327	15 109	17 436
Councillor TG Makhalanyane	1 399	11 225	12 624
Councillor PE Ralehlatsi	1 326	7 331	8 657
Councillor MK Ralehlatsi	3 320	1 410	4 730
Councillor AN Maoke	1 257	3 104	4 361
Councillor CD Moipatli	1 224	3 132	4 356
Councillor A Taylor	1 116	2 420	3 536
	29 552	**165 520**	**195 072**

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

30 June 2019	Highest outstanding amount	Aging (in days)
Councillor TP Jakobo (Plus one other)	41 186	1 014
Councillor RS Liphoko	26 710	780
Councillor KS Mokhuoane	24 117	1 438
Councillor A Taylor	14 411	999
Councillor TG Makhalanyane	13 520	475
Councillor TJ & PE Matobako	11 705	767
Councillor TI Mthimkhulu	7 708	275
Councillor MO Mokhele	6 855	282
Councillor RS Lipoko	5 361	276
Councillor PE Koqo	1 838	248
Councillor AN Maoke	1 156	195
	154 567	**6 749**

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2018	Highest outstanding amount	Aging (in days)
Councillor TB Jakobo	62 843	650
Councillor PC Matobako	25 775	1 175
Councillor TI Mthimkhulu	21 273	472
Councillor EM Makobane	19 814	1 214
Councillor KE Koalane	19 327	1 229
Councillor MM Mokhele	18 470	4 980
Councillor RS Liphoko	17 436	499
Councillor TG Makhalanye	14 250	922
Councillor CD Moipatli	11 487	807
Councillor MK Ralehlatsi	10 944	274
Councillor MM Khatlake	9 413	581
Councillor PE Koqo	9 158	643
Councillor A Taylor	5 552	442
Councillor AN Maoke	4 361	320
	250 103	**14 208**

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Various goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the normal procurement processes as required by paragraph 12(1) of the same gazette. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. These deviations were recorded and reported to the meeting of council.

50. Public contributions and donations

Public contributions and donations	-	4 091 554
Assets donated		
Tipper truck X 2	-	1 895 578
Hyundai bakkies X 4	-	939 616
Land and Building Erf 132/3 Ficksburg	-	3 500
Furniture and Equipment	-	122 860
Printers X 25, Fax machines X 5	-	122 860
Red Cross/Eskom monetary donation	-	580 000
	-	**3 664 414**

The municipality received in-kind donations and assistance during the fiancial year from various institutions. These donations were mostly of capital nature and were accordingly capitalised in Property, Plant and Equipment. The monetary donation was received unconditionally.

51. Events after the reporting date

There are no significant matters to report after the reporting date.

52. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	7 637 045	-	20 772 460	-
Consumer deposits	3 219 260	-	-	-
Unspent conditional grants and receipts	8 979 260	-	-	-
	19 835 565	**-**	**20 772 460**	**-**

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	7 923 026	-	-	27 317 132
Consumer deposits	2 787 766	-	-	-
Unspent conditional grants and receipts	8 979 260	-	-	-
	19 690 052	**-**	**-**	**27 317 132**

53. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

54. Contingencies

From information received from the municipality's Legal section they indicate that the municipality has outstanding claims that could result in a possible contingent liability of R7 342 237. A register is available at the municipality.

Contingent Liabilities - Pending claims	2019	2018
Damage to property - register available at municipality	7 342 237	6 746 029
Costs to defend these cases	-	722 659
	7 342 237	**7 468 688**

Figures in Rand	2019	2018

54. Contingencies (continued)

Contingent assets

There is a civil claim against Sharp Connect, a service provider whose contract was terminated in July 2015. They continued deducting money from the municipality's bank account until December 2015. Civil proceedings have commenced against the service provider concerned to recover an amount of R208 280.

Municipal Service Account owed by A34 Funeral Services for an amount of R 37 585.89

55. Operating lease

The municipality has the following significant leasing arrangements:
- Nashua - Photocopiers and printers
- There are no existing terms of purchase options on these contracts;
- Leases are negotiated for an average term of 3 years. No sublease contracts exist and no contingent rent is payable for the reporting period. There are no renewal and/or purchase options. The leasing arrangements expired during year aend and there are no future obligations as at year end.

Operating leases- as lessee (expense)		
Within one year	1 400 000	505 490

Certain of the municipality's property is held to generate rental income. Rental of property is expected to generate rental yields of 5% on an ongoing basis.

Operating leases - as lessor (income)		
Within one year	1 571 913	797 637

56. Accumulated surplus

Changes to Accumulated surplus	Balance	Total
Opening balance	3 247 829 543	3 247 829 543
Surplus/(Deficit) for the year	(644 326 365)	(644 326 365)
	2 603 503 178	**2 603 503 178**

57. Prior period errors (Comparative figures)

Finance charges amounting to R1 037 233 for the Wesbank loan accounts was not capitalised for two months where there was no payment.

Expenditure was overaccrued for by an amount totaling R730 763 in the prior year.

Correction of a prior year error relating to assets amounting to R251 185.

During the period under review it was noted that assets that were found in the verification process that were not on the fixed asset register.

During the period under review it was noted that work in process was overstated as payments were incorrectly capitalised to work in process that should have been expensed.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Increase in Wesbank borrowings	(1 037 233)	-
Decrease in Payables and accruals	730 763	-
Decrease in Payables and accruals	251 185	-

Notes to the Financial Statements

Figures in Rand	2019	2018

57. Prior period errors (Comparative figures) (continued)

Increase in Property, plant and equipment	113 505 611	-
Decrease in Property, plant and equipment	(9 586 515)	-
Statement of financial performance		
Increase in Finance costs	1 037 233	-
General expenses	(730 763)	-
Statement of changes in net assets		
Net increase in Accumulated surplus	103 863 811	-

The effect on the elements of the financial statements is as follows:

Statement of financial position - extract	**Comparative figures previously reported**	**Restatement**	**After restatement**
Payables from exchange transactions	110 158 947	(981 948)	109 176 999
Other financial liabilities	26 279 899	1 037 233	27 317 132
Increase in Property, plant and equipment	3 041 432 898	103 919 096	3 145 351 994
	-	-	-

Statement of financial performance - extract	**Comparative figures previously reported**	**Restatement**	**After restatement**
Finance costs	5 960 633	1 037 233	6 997 866
General expenses	36 734 455	(730 763)	36 003 692
	-	-	-

Statement of changes in net assets - extract	**Comparative figures previously reported**	**Restatement**	**After restatement**
Deficit for the year	(47 060 412)	(306 470)	(47 366 882)
Accumulated surplus	3 144 114 600	(55 285)	3 144 059 315
	-	-	-

Cash flow statement extract	**Comparative figures previously reported**	**Restatement**	**After restatement**
Finance costs	(5 960 633)	(1 037 233)	(6 997 866)
Net cash flows from operating activities	77 977 777	(1 037 233)	76 940 544
Other financial liabilities taken up	19 061 811	1 037 233	20 099 044
Purchase of Property, plant and equipment	(99 117 641)	(103 919 096)	(203 036 737)
	-	-	-

Reclassifications:

The Employee benefit obligation was classified between its long term and the short term portion. The effect of the reclassification is as follows:

57. Prior period errors (Comparative figures) (continued)

Statement of Financial position - extract	**Comparative figures previously reported**	**Restatement**	**After restatement**
Current liabilities - Employee benefit obligation	-	576 000	576 000
Non-current liabilitites - Employee benefit obligation	45 332 000	(576 000)	44 756 000
	-	-	-

Recalculations

The prior year Cash Flow Statement was recalculated and restated during the year, the affected items were the following:

Cash flow statement extract	**Comparative figures previously reported**	**Restatement**	**After restatement**
Property rates	55 060 236	(2 957 760)	52 102 476
Sale of goods and services	75 448 723	1 799 149	77 247 872
Grants	244 715 390	2 087 617	246 803 007
Other receipts	4 100 628	17 302 497	21 403 125
Other non-cash item	277 440	(234 672)	42 768
	-	-	-

Schedule of external loans as at 30 June 2019

	Loan Number	Redeemable	Balance at 30 June 2018 Rand	Interest for the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2019 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
DBSA Loan @16.75%	13457	30/06/2020	718 182	107 375	437 640	387 917	-	-
DBSA Loan @11.36%	101389	31/12/2024	4 244 509	469 654	941 721	3 772 442	-	-
			4 962 691	**577 029**	**1 379 361**	**4 160 359**	**-**	**-**
Instalment sales agreements - ABSA Bank Limited								
ABSA Bank Limited at 10%	89515381	01/06/2022	754 384	68 189	229 649	592 924	-	-
ABSA Bank Limited at 10%	89514989	01/06/2022	544 771	49 242	165 839	428 174	-	-
ABSA Bank Limited at 10%	89516256	01/06/2022	1 133 757	102 481	345 138	891 100	-	-
ABSA Bank Limited at 10%	89515861	01/06/2022	421 053	38 059	128 177	330 935	-	-
ABSA Bank Limited at 10%	89516272	01/06/2022	1 133 757	102 481	345 138	891 100	-	-
ABSA Bank Limited at 10%	89515110	01/07/2022	2 038 176	184 717	610 155	1 612 738	-	-
ABSA Bank Limited at 10%	89514009	01/07/2022	924 587	83 794	276 787	731 594	-	-
ABSA Bank Limited at 10%	89514076	01/07/2022	924 587	83 794	276 787	731 594	-	-
ABSA Bank Limited at 10%	89516795	01/06/2022	51 751	4 678	15 753	40 676	-	-
ABSA Bank Limited at 10%	89516779	01/06/2022	51 751	4 678	15 754	40 675	-	-
ABSA Bank Limited at 10%	89517519	01/09/2022	1 334 727	121 562	386 879	1 069 410	-	-
ABSA Bank Limited at 10%	89512457	01/09/2022	2 981 468	271 540	864 197	2 388 811	-	-
ABSA Bank Limited at 10%	89512260	01/09/2022	1 335 451	121 628	387 089	1 069 990	-	-
ABSA Bank Limited at 10%	89512260	08/08./202	2 064 129	187 540	607 913	1 643 756	-	-
			15 694 349	**1 424 383**	**4 655 255**	**12 463 477**	**-**	**-**
Instalment sales agreement - Wesbank								
Wesbank, a division of First Rand Limited	85265501996	01/08/2022	737 043	84 344	236 450	584 937	-	-
Wesbank, a division of First Rand Limited	85265447849 0	01/09/2022	1 167 289	134 387	357 410	944 266	-	-

Setsoto Local Municipality
Appendix A
June 2019

Schedule of external loans as at 30 June 2019

	Loan Number	Redeemable	Balance at 30 June 2018 Rand	Interest for the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2019 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Wesbank, a division of First Rand Limited	85264693609	01/09/2022	3 919 575	439 288	1 188 119	3 170 744	-	-
Wesbank, a division of First Rand Limited	85264694308	01/09/2022	3 919 575	439 287	1 188 119	3 170 743	-	-
Wesbank, a division of First Rand Limited	852663344384	01/09/2022	1 466 886	168 879	449 143	1 186 622	-	-
Wesbank, a division of First Rand Limited	85266283448	01/09/2022	1 466 886	168 879	449 143	1 186 622	-	-
Wesbank, a division of First Rand Limited	8526662844159	01/09/2022	738 584	85 031	226 146	597 469	-	-
Wesbank, a division of First Rand Limited	8526537408	01/09/2022	1 167 289	134 387	357 410	944 266	-	-
			14 583 127	**1 654 482**	**4 451 940**	**11 785 669**	**-**	**-**
Total external loans								
Development Bank of South Africa			4 962 691	577 029	1 379 361	4 160 359	-	-
Instalment sales agreements - ABSA Bank Limited			15 694 349	1 424 383	4 655 255	12 463 477	-	-
Instalment sales agreement - Wesbank			14 583 127	1 654 482	4 451 940	11 785 669	-	-
			35 240 167	**3 655 894**	**10 486 556**	**28 409 505**	**-**	**-**

Setsoto Local Municipality
Appendix G2
Budgeted Financial Performance (revenue and expenditure by municipal vote)
for the year ended 30 June 2019

	2019/2018										2018/2017		
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Revenue by Vote													
Executive & Council	44 853 000	109 432	44 962 432	44 962 432	45 032 313		69 881	100 %	100 %				-
Municipal Manager	4 283 000	(62)	4 282 938	4 282 938	4 982 938		700 000	116 %	116 %				-
Budget and Treasury Office	82 231 000	15 802 414	98 033 414	98 033 414	112 717 241		14 683 827	115 %	137 %				-
Corporate Services	1 607 000	(1 083 818)	523 182	523 182	486 588		(36 594)	93 %	30 %				-
Development Planning and Social Security	5 021 000	(2 482 073)	2 538 927	2 538 927	2 532 755		(6 172)	100 %	50 %				-
Development Planning and Social Security	51 210 000	9 863 184	61 073 184	61 073 184	62 471 526		1 398 342	102 %	122 %				-
Engineering Services	362 345 000	25 741 756	388 086 756	388 086 756	386 519 390		(1 567 366)	100 %	107 %				-
Total Revenue by Vote	**551 550 000**	**47 950 833**	**599 500 833**	**599 500 833**	**614 742 752**		**15 241 919**	**103 %**	**111 %**				**520 749 684**
Expenditure by Vote to be appropriated													
Executive and Council	21 660 000	3 345 568	25 005 568	25 005 568	49 068 074	24 062 506	24 062 506	196 %	227 %	-	-	-	-
Municipal Manager	28 373 000	1 947 931	30 320 931	30 320 931	17 890 618	-	(12 430 313)	59 %	63 %	-	-	-	-
Budget and Treasury Office	39 478 000	3 459 132	42 937 132	42 937 132	613 803 525	570 866 393	570 866 393	1 430 %	1 555 %	-	-	-	-
Corporate Services	32 578 000	(6 191 200)	26 386 800	26 386 800	28 359 321	1 972 521	1 972 521	107 %	87 %	-	-	-	-
Development Planning and Social Security	26 780 000	(3 141 443)	23 638 557	23 638 557	27 597 829	3 959 272	3 959 272	117 %	103 %	-	-	-	-
Development Planning and Social Security	57 545 000	8 634 197	66 179 197	66 179 197	73 992 708	7 813 511	7 813 511	112 %	129 %	-	-	-	-
Engineering Services	451 693 000	30 457 293	482 150 293	482 150 293	448 357 041	-	(33 793 252)	93 %	99 %	-	-	-	-
Total Expenditure by Vote	**658 107 000**	**38 511 478**	**696 618 478**	**696 618 478**	**1 259 069 118**	**608 674 203**	**562 450 640**	**181 %**	**191 %**	**-**	**-**	**-**	**565 445 567**
Surplus/(Deficit) for the year	**106 557 000**	**9 439 355**	**(97 117 645)**	**(97 117 645)**	**(644 326 366)**		**(547 208 721)**	**663 %**	**(605)%**				**(44 695 883)**